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Federal Exemption from the Property Tax:

Its Impact on Kitsap County,

Washington

by

Joseph Stusnick, III

A thesis submitted in partial fulfillment
of the requirements for the degree of

Master of Urban Planning

University of Washington

University of Washington

Abstract

FEDERAL EXEMPTION FROM THE PROPERTY TAX:
ITS IMPACT ON KITSAP COUNTY,
WASHINGTON

By Joseph Stusnick, III

Chairperson of Supervisory Committee:

Professor Warren R. Seyfried
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This thesis examines a federal policy which exempts military installations from property taxation and develops a procedure for determining the impact upon the current tax base of a local governmental jurisdiction. Since 1891 the Navy has played an integral part in the growth and development of Kitsap County, Washington. The exemption of Navy property from taxation has had varying degrees of effect upon the tax base and the financing of local government. Over the past several years, revenue resources for local governmental entities in the county have been decreasing while the cost of providing necessary public services has grown. Lacking sufficient revenue, the level and quality of public services have had to be reduced.

Many factors are contributing to the fiscal stress being experienced not only by local government in Kitsap County but by local governments throughout the country. In Kitsap County much attention has been focused on the tax exempt status of Navy property as a major contributing factor to the fiscal dilemma being experienced. To better understand the impact imposed by the exemption of Navy property, a hypothetical tax bill for the Navy in Kitsap County is determined as a measure

of impact upon the tax base and financing of local government. A procedure for determining a measure of property tax attributable to Navy property which recognizes the many differences and similarities between the Navy and the local public and private sector is developed. Based upon the assumptions and data applied to the procedure, the impact attributable to the exemption of Navy property was found to be less than ten percent of 1980 property tax revenues.

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PREFACE

My interest in the tax exemption of the U.S. Navy Property in Kitsap County, Washington, developed in response to a report entitled, Fiscal Burdens on Kitsap County (Trident Coordinating Office, 1979). In 1979, property taxes paid in Kitsap County totalled \$27.9 million. Because the federal government does not pay property taxes, the report stated, taxing districts in Kitsap County lost over \$33 million in that year. Such a loss, which exceeded property taxes collected by 20 percent, would seem to impose a serious threat to the fiscal stability of the local government.

The effect of this loss on the level and quality of local public services, the pattern and rate of urban development, and the attitude of the local population experiencing the effects of an operating and maintenance revenue loss of this magnitude, particularly concerned me as a land use planner. Before these and other social and economic effects attributable to such a loss could be studied, an accurate and well-defined measure of fiscal impact, as related to property tax exemption, was necessary. The loss of \$33 million was not accepted as a valid fiscal impact indicator. It seemed highly improbable that recurring losses of this magnitude would have persisted without some amelioration.

It is hoped that this study contributes to a greater understanding of federal property tax exemption in Kitsap County, Washington, and elsewhere.

I wish to acknowledge my debt of gratitude to the many individuals and organizations that made this study possible. I am particularly indebted to my teacher and advisor, Professor Warren R. Seyfried, who offered me continuous encouragement and support.

I wish also to thank other individuals who helped me with kindness and understanding. Professor Claudio Arenas -- teacher and member of my thesis committee -- provided suggestions during the formative period of and throughout this study that were most helpful. My good friend, Gary Gerber, proofread the manuscript. Mrs. Mary Piper applied her outstanding skill to the task of typing and correcting this paper.

Finally, I want to thank my wife, Keiko, whose patience and support never waned.

CHAPTER ONE

INTRODUCTION

Response to social, economic, and geographic factors is manifested by policy that affects the growth and character of the urban environment. For planning to be effective in shaping policy, understanding the interaction of these and other factors is essential. Robert Burchell (1978, p. xxi) has stated this well:

The three key elements of planning -- the physical, the social, and the fiscal -- are mutually interdependent. The success of planning is dependent upon an appropriate balance and an analytical competence with which to integrate them.

Double-digit inflation, a growing population and its changing composition, changes in community attitudes and requirements, and opposition to new taxes or increases in old taxes -- these are just some of the factors affecting the financial capability of local government¹ that have heightened the importance of fiscal planning.

LOCAL PUBLIC SERVICES AND INFRASTRUCTURE

The many public institutions that comprise local government are a very large part of our urban environment. The adequacy of public infrastructure -- streets, water and sewer systems, fire departments, municipal structures, and recreation facilities -- and the broad range of local public

services affect, and are affected by, the location, pattern, and density of urban development. The provision of local public services and infrastructure responsive to the preferences of the local community or required by law is dependent upon operating and capital funds. Affecting revenues available to local government are federal and state intergovernmental transfers, potential non-tax and non-property tax revenues, the size and distribution of the property tax base, and the tax rate.

REVENUES FOR LOCAL GOVERNMENTS

Federal and state revenue sharing and other non-tax revenues comprise over sixty percent of all local government, including school district, financial resources (U.S. Department of Commerce, 1979, p. 23, table 2); local taxes provide the remaining revenues. Accounting for eighty percent of local taxes is the property tax (p. 25, table 5) -- over thirty percent of all local government revenues. Federal and state revenue sharing and other forms of local taxation, such as sales and income taxes, have increased in significance since the turn of the century while the importance of the property tax has diminished. The property tax, however, still provides the majority of own source revenues to local governments (p. 23, table 2).

THE PROPERTY TAX

The reliability of the property tax as a residual funding source and the permanence of the tax base are characteristics that have sustained the tax as an important source of locally generated revenue. Public services and infrastructure financed by the property tax also tend to be internally funded. New developments not only generate a demand for increased public services; they also add to the property tax base which contributes to an increase in local government revenues. Property value, however, has little correlation to the requirement for local public services (Spengler, 1940, p. 170). Revenues derived from the taxation of industrial plants and low density residential developments usually exceed the cost of providing local public services. However, the cost of providing services in response to high density residential development as a rule surpasses the property taxes resulting from these developments². Faced with the need to finance the rising costs of providing services and infrastructure, local public officials have encouraged fiscally oriented land use policies known collectively as fiscal mercantilism (Netzer, 1962, p. 131). However, unless the necessary services and infrastructure are "in place" to attract the segment of industrial, commercial, or residential market that you are planning for, the effectiveness of these policies aimed at strengthening the tax base will be minimal.

EXEMPTIONS FROM THE PROPERTY TAX

The amount of property that is tax exempt by virtue of use and/or ownership is almost exclusively beyond the control of local government. While state laws define the categories of properties exempt from taxation, local governments are left the task of compensating for the lost revenues. Exemptions within a local taxing jurisdiction may be classified in two general categories: those which exist to benefit primarily the local taxpaying population and those serving a much broader regional, state, or national purpose.

The former category includes all property owned by local government and private eleemosynary and nonprofit service organizations serving the local jurisdiction. There is little sense in the local government taxing itself; it would be a needless cost and an administrative burden. The indirect subsidy the tax exemption provides to private organizations serving primarily the local population is generally acceptable; if these organizations did not exist, the local government would be burdened with providing the respective services. State and federal ownership of property which exists to serve primarily the local jurisdiction is also included in this category.

Properties used or held for activities which serve primarily broad regional or national interests rather than those of the local public comprise the latter category. These

exemptions reduce the local tax base and impose the costs of their proportional share of local government -- otherwise covered by paying the property tax -- on the local population instead of the broader population being served. Universities, regional hospitals, state capitals, national forests and military installations exemplify exemptions in this category.

PURPOSE OF THE STUDY

The purpose of this paper will be to examine a federal policy which results in the property tax exemption of federal military installations and to measure the direct effect that this exemption has on the operating and maintenance fiscal capacity of the respective local government. The study will focus on Kitsap County, Washington, where the activities of the U.S. Navy continue to have an integral role in the growth and development of the county. Because of the geography of Kitsap County -- a peninsula with limited accessibility -- the impact of a reduced property tax base as a result of the exemption of U.S. Navy property has been confined to the county, municipalities, and other local governmental entities in Kitsap County.

Chapter Two recounts the history of the U.S. Navy in Kitsap County and examines the relationship of Navy activities to those of the local government and private sectors. Security and contingency requirements, together with historical

tradition, have resulted in the Navy providing services and facilities very similar to those provided by the non-military industrial, commercial, and local governmental entities.

Local government in Kitsap County; the inter-relationships among the various governmental units; the provision and cost of local public services and infrastructure; and sources of revenue including the property tax and its administration is reviewed in Chapter Three. Sources of data and the rationale for values and averages subsequently used in determining a fiscal impact are discussed.

Chapter Four is a survey of the history underlying the tax exempt status of federal property and a review of methods of ascertaining an appropriate level of compensation.

In Chapter Five the assumptions and rationale that have been developed and discussed in the previous chapters are brought together and incorporated into a procedure for measuring the fiscal impact imposed by the exemption of Navy property from advalorem taxation in Kitsap County.

A summary of findings and their implications relative to forming a compensation policy relative to the tax exempt status of military property and future research needs is presented in Chapter Six.

NOTES

1. The term "local government" as used in this study encompasses all governmental entities within and including the county.
2. Lower density residential, industrial, and commercial development impose a lower demand for schools and various social services than do high density residential developments.

CHAPTER TWO

A MIX OF URBAN LAND USES U.S. NAVY ACTIVITIES IN KITSAP COUNTY

The "external" economies" (Smith, 1975, p. 31) that are important factors influencing locational and operational decisions of private industrial, commercial, and retail firms have less relevance to the federal decision makers regarding military installations. Because they have a different job mix and respond primarily to strategic and national defense requirements, military installations do not behave in the same way as profit maximizing firms (Meyers and Quigley, 1977, p. 44).

HISTORICAL CONTEXT

Geography and location were probably the two important factors that influenced the Mahan Commission in 1888 to recommend Sinclair Inlet, which lies between Bremerton and Port Orchard in Kitsap County, as the location for a U.S. Navy Drydock. Congress, in 1891, appropriated funds to purchase 190 acres of land at Bremerton for the construction of a drydock and repair and overhaul base for the U.S. Navy. The Naval Station Puget Sound was commissioned the same year, and coincided with the end of the booming milltown and logging industry era which had dominated the first thirty years of Kitsap Peninsula's history. Ground was broken in 1892 for

the first of the six drydocks now in operation. By 1920, the military had acquired the Manchester Fuel Depot, Fort Ward on Bainbridge Island, the Keyport and Bangor facilities, and the Jackson Park area.

World War I played a decisive role in accelerating the pace of events, so that what took ten years to accomplish might have taken much longer had there been no war. The start of a defense boom in 1938 heralded a 235 percent population increase in Kitsap County over the next two years. By 1945, employment at the Puget Sound Naval Yard had climbed to 34,000; more than double its present employment (Washington State Association, 1953, p. 154). In 1973, the tentative selection of Bangor as the West Coast Trident Submarine support site was announced. Businessmen hailed it as the county's biggest economic boost since World War II; unemployment had been running at twice the national average in Kitsap County. The total of primary and secondary population increases attributed to the Trident Base is forecasted to be 27,500 by 1985, which is in addition to the estimated 19,000 increase in population unrelated to the Trident Base.¹

In 1980, Navy activities employed about 26,000 military and civilian personnel, and are expected to employ 35,000 in 1985 when the Trident Base is fully staffed: 50 and 60 percent respectively of total employment in Kitsap County.² This level of federal government employment contrasts

significantly with the nationwide average of less than 20 percent (U.S. President's Economic Adjustment Committee, 1980, p. 5), and far exceeds any other jurisdiction in the United States (Trident Coordinating Office, 1979, pp. II-1,2).

LAND USE AND IMPROVEMENTS

Almost since its early settlement by the loggers and millhands, the Navy activities have undoubtedly had a significant impact on the rate of growth and pattern of development in Kitsap County. By 1920, most of the land now owned by the Navy had been acquired. The Navy has ownership of more than 9,800 acres, almost 4 percent of the entire county. As shown in Table 1, most of the county is rural with 87 percent of the land in use as forests or for agriculture; of the remaining, 28 percent of developed land is Navy owned. The value of Navy land and other tax exempt land in the county is not known as it has not been assessed³ by the local government. Neither has the value of Navy improvements been assessed; however, the replacement cost⁴ as of September 1978 was estimated at \$1.5 billion (U.S. Department of the Navy, 1978).⁵

FUNCTIONS

The general categories of land use and improvements (buildings, structures, roads, utilities, etc.) at Navy activities in Kitsap County, and at many military installations

TABLE 1
LAND USE TABULATIONS FOR KITSAP COUNTY, 1975

Use	Percentages		Acres
	All Land	Developed Land	
Developed Land			
Residential	3.93	30.0	10,551
Business			
Commercial	0.31	2.4	832
Manufacturing	0.13	1.0	349
Mining	0.11	0.8	295
Utility	0.78	5.9	2,094
Other	<u>0.16</u>	<u>1.2</u>	<u>430</u>
Subtotal	1.49	11.3	4,000
Public			
Education	0.20	1.5	537
Parks, open space	0.42	3.2	1,128
Parking	0.08	0.6	215
Streets	3.33	25.3	8,940
Government (local, state & federal)	<u>3.71</u>	<u>28.2</u>	<u>9,960</u>
Subtotal	<u>7.74</u>	<u>58.8</u>	<u>20,780</u>
Total Developed Land	13.16	100.0	35,000
Undeveloped Land			
Agriculture, forest	<u>86.84</u>		<u>233,145</u>
Total	100.00		268,145

Source: Puget Sound Council of Governments

elsewhere, closely parallel those in the local non-military sectors. Industrial, commercial and retail, residential, private tax exempt, and quasi-local government (defined below) are five categories to which all Navy land and improvements may be grouped. These categories encompass either operational functions or personnel support functions. The former are those activities directly related to the "industrial" or national defense mission of the Navy. Tradition, together with the unique nature and requirements of national defense, requires a broad range of the latter. Except for large private industries located in very remote locations without the "external economies" available in an urban area, personnel support activities are not directly provided by private industry.

Navy facilities and/or services which are shared by the operational and personnel support functions include security and police protection, fire protection, road construction and maintenance, utilities, and public works (facility maintenance and transportation services). All park and recreational facilities and services are considered exclusively within the personnel support function. Within the local non-military sector, local government has responsibility for police and fire protection, roads, and parks and recreation; utilities are provided by either the local government, public or private corporations, or a combination of these; and

maintenance and transportation services not related to the local government are a function of the individual, or private commercial and retail activities. Activities of the Navy which are similar to or shadow those of the local government are identified hereafter in this study as "quasi-local government."

Encompassing the operational function of the Navy in Kitsap County are the following industrial activities: ship and submarine construction, repair and conversion; dry-docking; material procurement and storage; ordnance inspection, testing, maintenance, repair, and storage; petroleum products procurement, storage, and distribution; technical and operational training; construction, maintenance, and repair of facilities; automotive and equipment operation, maintenance, and repair; operation and maintenance of railroad yards and equipment; security; fire protection; and respective road maintenance and construction.

Commercial and retail activities which are personnel support functions include the retail shopping and service facilities of the Navy Exchange and Commissary; automotive service and gasoline stations; clubs, restaurants, cafeterias, and other food service facilities; banks and credit unions; movie theaters, bowling alleys, and craft and hobby centers; dental clinics; and parking facilities. Included in the residential category are single and multi-family dwelling

units, dormitories, and dining and common use facilities.

Within the tax exempt category of personnel support functions are hospitals, chapels, religious education buildings, libraries, youth centers, Navy Relief, the Red Cross, family service centers, continuing education facilities, and museums.

QUASI-LOCAL GOVERNMENT SERVICES

Quasi-local government activities provided as part of the personnel support function of the Navy are public safety which includes police services and fire protection; park and recreation facilities and services; roads, sidewalks, and stormwater drainage systems; water systems, sewerage and waste water treatment; and various public administrative services.

A complete and current record of all land and facilities owned or controlled by the Navy is found in the Detailed Inventory of Naval Shore Facilities (U.S. Department of the Navy, 1978). Data from this record for the area and replacement cost of all buildings, structures, and improvements; and area of land are summarized, according to the land use categories described above, in Tables 2 and 3.

An approximation of quasi-local government services provided by the Navy is summarized in Table 4. Column (1) represents the total number of man years or miles of roads the Navy budgeted for in fiscal year 1980. The adjusted

TABLE 2

AREA AND REPLACEMENT COST OF IMPROVEMENTS WITHIN U.S. NAVY PROPERTY
IN KITSAP COUNTY, 1978

Land Use Category	Area of Buildings and Structures ^c (Square Feet)	Percent of Total Area ^c	Roads (Miles)	Parks (Acres)	Replacement Cost (Thousands)	Percent of To- tal Replacement Cost
Industrial	9,045,078	80	113.2	a	\$1,330,438	89.8
Commercial/ Retail	436,435	4	b	a	49,938	3.4
Residential	1,469,955	13	b	a	52,265	3.5
Tax Exempt	100,816	1	b	a	5,520	0.5
Quasi-Local Government	<u>256,143</u>	<u>2</u>	<u>21.75</u>	<u>14.376</u>	<u>43,211</u>	<u>2.8</u>
Total	11,298,994	100	134.95	14.376	\$1,480,373	100.0

Source: Department of the Navy, Detailed Inventory of Naval Shore Facilities,
NAVFAC P-164, September 30, 1978.

a and b Included in the quasi-local government category.

^c Represents the area of buildings and structures which are accounted for
according to square feet.

TABLE 3

LAND USE TABULATIONS FOR U.S. NAVY PROPERTY IN
KITSAP COUNTY, 1978

Land Use Category	Improved and other ^a (or developed)	Acreage Unimproved ^b (or Undeveloped)	Total	Percent ^c
Industrial	813.8	7324.4	8138.1	82.4
Commercial/Retail	14.2	127.5	141.7	1.4
Residential	51.0	459.3	510.3	5.2
Tax Exempt	3.5	31.5	35.0	0.3
Quasi-Local Government	<u>105.3</u>	<u>947.5</u>	<u>1052.8</u>	<u>10.7</u>
Total	987.8	8890.1	9877.9	100.0

Source: Department of the Navy, Detailed Inventory of Naval Shore Facilities, NAVFAC, P-164, September 30, 1978.

^a "Improved" acres are those which receive intensive horticultural development and maintenance care. Examples of improved grounds include lawns, flower and ornamental shrub planting areas, parade grounds, and athletic fields. "Other" acres are those occupied by buildings and structures, and utilities visible above ground.

^b "Unimproved" acres are those grounds operated as agricultural acres, grazing areas, wooded acres, swamps, marshes, deserts, tundra, rocky/barren land, etc.

^c Ratios for the calculation of land area distribution by use is based upon an adjusted area which accounts for the facilities and structures listed by units of measure other than square feet.

distribution of all facilities as explained in note 3 of Table 3 results in 84 percent of all facilities allocated to the operational function of the Navy and 16 percent to the personnel support function. Assuming that the respective Navy activities were privately owned or part of the local government, the private industry would likely provide little or none of the personnel support function. All local public services provided to the personnel support activities would, therefore, be a responsibility of the local government and might require the level of effort indicated in column 3 of Table 4. Further discussion of quasi-local government effort is presented in Chapter 5.

TABLE 4

ESTIMATED QUASI-LOCAL GOVERNMENT EFFORT PROVIDED BY THE U.S. NAVY AS PART OF THE PERSONNEL SUPPORT FUNCTION, 1980

Category	Total Man Years (MY) of Effort or Miles (MI)		Personnel Support Factor	Quasi-Local Government Effort	
Public Safety					
Police	210	MY ^b	.16	34	MY
Fire Protection	172.8	MY	.16	28	MY
Parks and Recreation	26	MY	1.00 ^a	26	MY
Roads	135	MI ^b	.16	21.75	MY

Source: Various reports assembled and calculations made by the author.

^a See page 12

^b See Table 8.

Determining the actual level of service that the local government might provide if given the responsibility, and what might be the pattern of urban development if the personnel support activities were a responsibility of the non-military sector, is beyond the scope of this study. Therefore, the quasi-governmental effort calculated in Table 4 is assumed to represent that which would otherwise be provided by the local government.

NOTES

1. Data compiled by the Trident Coordinating Office and the Puget Sound Council of Governments.
2. Ibid.
3. Assessed value or assessment refers to official valuations of real and personal property used in determining property tax levy rates and for apportioning the property tax. The term valuation and variations thereof without reference to assessing refers to unofficial estimates of value.
4. The replacement cost for Navy real property improvements as reported in the Detailed Inventory of Naval Shore Facilities (U.S. Department of the Navy, 1978) is calculated by totalling the "adjusted" acquisition cost plus all reportable capital improvement costs (1979, p. 204) for buildings, structures, utilities, and ground improvements (except landscaping). The appropriate multiplier for the year of construction, developed from Eastern and Western Building Cost indexes for July 1978 and compiled by the Marshal and Swift Company, is applied to the acquisition cost plus respective improvement costs for each improvement to determine an estimated current replacement cost (1976, pp. xi-xii).
5. Assessments performed from June 1, 1978, to May 31, 1979, and property already on the tax rolls comprise the 1979

assessed valuations used to determine the 1980 property tax levies. All locally assessed values are adjusted to and dated as of January 1, 1979, and are subject to both local and state equalization prior to the actual levying of 1980 taxes.

CHAPTER THREE

LOCAL GOVERNMENT, PUBLIC SERVICES, PUBLIC FINANCES AND PROPERTY TAXATION IN KITSAP COUNTY

Local government which provides various public services in Kitsap County consists of the county; four cities: Bremerton, Port Orchard, Poulsbo and Winslow; 17 fire districts; five school districts: North, Central and South Kitsap, Bremerton and Bainbridge Island; and 45 special districts. Reliance upon the many sources of operating revenues -- property taxes, business and occupation taxes, license and user fees, and state and federal revenue sharing and grants -- varies significantly among the different governmental entities. The property tax accounted for 60 percent of locally generated revenues and almost 30 percent of local government operating and maintenance funds¹ in 1980.

LOCAL GOVERNMENT

County

The county government has two roles. It is responsible for certain state-mandated social and health services, all law enforcement services except police protection within cities, and general governmental services for the entire population of the county. Within the unincorporated areas of the county it is responsible for specific services including road construction and maintenance; planning, zoning,

sub-division regulation and building inspection; health inspection; park and recreation programs; and provision or regulation of sewerage and water supply services.

Municipalities

Generally, in Kitsap County, the cities provide water, sewerage, fire protection, park and recreation services, street maintenance, planning, zoning, sub-division regulation, building permits, and police and public safety services. In some cities, fire protection, water and sewerage services are provided by special districts.

Special Districts

The balance of local government is special districts which provide specific services and various recreation programs for the county. Fire protection is provided to the unincorporated areas of the county and the city of Winslow by 17 fire districts; the three larger cities have municipal fire departments. Responsible for a variety of commerce related activities, including the operation of an industrial park, the county airport; and moorage and waterfront recreational facilities such as marinas, fishing piers, and parks; are eleven port districts. Complementing park and recreational services provided by the county and cities are the Kitsap County Regional Library and the Bainbridge Island Park and Recreation District. The main library, nine branches and bookmobile provide a variety of services to the entire county

and a portion of Mason County. The Bainbridge Island District provides park and recreation facilities and services to residents of the island, including the city of Winslow.

Supplying water to 67 percent of the population are four municipal water systems and eighteen water districts. Sewerage is provided by four systems operated by the municipalities, five by the county, three sewer districts, a private system at Port Gamble, and two Navy systems -- one at Keyport and the other at Bangor. Water and sewer systems are by state law self-financing with user charges and various fees providing revenues to cover operating and maintenance costs. The Public Utility District conducts test well drillings and various engineering studies related to the supply of water to the county. Due to its function, the Public Utility District is authorized to levy property taxes.

FINANCING THE OPERATION AND MAINTENANCE OF LOCAL PUBLIC SERVICES

Property taxes contribute to the funding of all local government services except for water, sewerage and a few special districts which rely upon user fees or grants for revenues.² The cost for fire protection, police services, park and recreation services, road maintenance and public education accounted for 83 percent of all expenditures budgeted for in 1980, with other general government services accounting for the remaining.³ For these governmental

services, the property tax provided 29 percent of budgeted operating revenues (see Table 5).

TABLE 5
DISTRIBUTION OF LOCAL GOVERNMENT REVENUES 1979/1980

	Budget Total	Property Tax Contribution	Percent from the Property Tax
All Budgets Less School Districts ^a	34,501,723	10,947,347	31.73
School Districts' Budgets ^b	<u>60,902,739</u>	<u>16,530,943</u>	<u>27.15</u>
Total	95,403,452	27,478,290	28.80

Source: From various budgets assembled by author.

^a For Tax Year 1980, from Table 6.

^b For School Year 1979/1980, from Table 9.

Sources and distribution of operating and maintenance revenues budgeted in 1980 for all local governments except school districts are given in Tables 6 and 7. Except for state and federal funds, the remaining \$23 million (75 percent) is from local sources and almost half of this from property taxes. The total operating and maintenance budgets for the primary public services are shown in Table 8 together with the total level of effort provided.

TABLE 6

SUMMARY OF GENERAL OPERATING REVENUES FOR LOCAL GOVERNMENT
(LESS SCHOOL DISTRICTS) IN KITSAP COUNTY, 1980

	County	Incorporated	County and Incorporated	Roads ^d	Total
Balance	\$ 261,407	\$ 585,000	\$ 846,407	\$ 864,052	\$ 1,710,459
Local Taxes					
Property Tax ^a					
(Regular Levies)	6,344,334	1,454,390 ^e	7,798,724	3,148,623	10,947,347
Other Local Taxes ^b	<u>1,798,091</u>	<u>3,953,122</u>	<u>5,751,213</u>	<u>64,802</u>	<u>5,816,015</u>
Total Local Taxes	8,142,425	5,407,512	13,549,937	3,213,425	16,763,362
Federal and State Funds	2,632,911	1,418,936	4,051,847	4,499,903	8,551,750
Other ^c	<u>4,432,076</u>	<u>1,857,415</u>	<u>6,289,491</u>	<u>1,186,661</u>	<u>7,476,152</u>
Total	\$15,468,819	\$9,268,863	\$24,737,682	\$9,764,041 ^f	\$34,501,723

Source: Various 1980 budgets assembled by the Author.

^a Property tax levies are summarized in Appendix A.

^b Other taxes include the Real Estate Excise Tax: \$34,000; Retail Sales and Use Tax: \$3,007,680; and Business and Occupation Tax: \$2,269,620.

^c Included are interfund payments of \$840,257 which represent an exchange of revenues between the various units of local government.

^d For both county and incorporated areas.

^e See Appendix A, note d.

^f Includes \$2,885,328 in capital expenditure funds.

TABLE 7

PERCENT DISTRIBUTION OF GENERAL OPERATING REVENUES
FOR LOCAL GOVERNMENT (LESS SCHOOL DISTRICTS)
IN KITSAP COUNTY, 1980

	County	Incor- porated	County and Incorporated	Roads	Total
Balance	1.69%	6.31%	3.42%	8.85%	4.96%
Local Taxes					
Property Tax (regular levies)	41.01	15.69	31.53	32.25	31.73
Other Local Taxes	<u>11.63</u>	<u>42.65</u>	<u>23.25</u>	<u>0.66</u>	<u>16.86</u>
Total Local Taxes	52.64	58.34	54.78	32.91	48.59
Federal and State Funds	17.02	15.31	16.38	46.09	24.79
Other	<u>28.65</u>	<u>20.04</u>	<u>25.42</u>	<u>12.15</u>	<u>21.67</u>
Total	100	100	100	100	100

Source: Calculated from Table 6.

TABLE 8

ESTIMATE OF THE GROSS COST PER UNIT OF EFFORT FOR
VARIOUS LOCAL GOVERNMENT FUNCTION, 1980

Category	Total Operating Budget	Units of Effort	Gross Cost Per Unit of Effort
Public Safety			
Police	\$ 4,438,222	136.5 MY ^b	\$32,514/MY
Fire Protection			
Bremerton	\$ 1,523,300	65.4 MY	\$23,301/MY
Other	<u>1,358,411</u>	--	--
Total Fire Protection	\$ 2,881,711		
Parks and Recreation	\$ 2,885,860	126.4 MY	\$22,831/MY
Roads	<u>\$ 6,046,147^a</u>	1205 MI ^c	\$ 5,017.5/MI
Total Budget	\$17,775,240		

Source: Various 1980 budgets assembled by author.

^a From total shown in Table 6 less capital expenditures and beginning balance.

^b MY = man years of effort; for police this represents the number of full-time commissioned police officers; for fire protection this represents the number of full-time equivalent firemen based on a 40-hour week; for parks and recreation this represents the full-time equivalent personnel based also on 40-hour work week. Bremerton fire department has only 50 full-time firemen; however, each works the equivalent of 52.3 hours per week.

^c MI = estimated miles of municipal and county roads.

Police Protection

Police protection is a part of all local government law enforcement services encompassing the courts, juvenile justice, prosecuting attorney, detention/correction, and the coroner. As was alluded to in the previous chapter and will be further discussed in Chapter Five, only the level of police protection effort would increase significantly if the local government were responsible for law enforcement to the personnel support function of the Navy.

County and city current expense funds generally provide all operating revenues for police protection. However, in 1980 the county funded over half of its police protection service to the unincorporated areas of the county from Federal Revenue Sharing. Due to a degree of uncertainty associated with revenue sharing, local government almost exclusively budgets these funds for capital, not operating, expenditures. Local government budgeted \$4.4 million in 1980 for 137 law enforcement officers (see Table 8) -- 53 in the county sheriff department and 84 in the city police departments.

Fire Protection

Fire protection and rescue and emergency medical service is provided by four municipal fire departments and seventeen fire districts with a total operating budget in 1980 of \$2.9 million. The city of Bremerton budgeted \$1.5 million in 1980 for a complement of fifty firemen comprising the only full-

time fire department in the county.

Revenues for city fire protection are from city current expense funds. Fire districts have taxing authority and receive most of their revenues from property taxes. The city of Winslow contracts with the Bainbridge Island Fire District, paying an amount equal to the fire district levy rate times the assessed value of property in Winslow.

Parks and Recreation

Included within parks and recreation services are the services provided by the county, cities, Bainbridge Island district and the Kitsap Regional Library. State parks, which serve a regional or statewide population and are funded by the state, are not considered in this study. Funding of school recreation programs are included in the school budget below.

The local government provides 1,107,000 acres of park and recreation facilities. The county provides parks for all county residents, but it does not provide recreation programs. Bainbridge Island district and the city of Bremerton provides recreation programs, as well as parks, primarily for their own residents. The regional library services the entire county and part of Mason County. The park and recreation budgets for 1980 totaled \$2.9 million and included funding for 127 full-time personnel (see Table 8). Included is the regional library with a staff of 61 and a budget

of \$1.4 million.

Roads

The state, county, and cities are responsible for the maintenance of all public arterials, streets, and traveled ways including storm drains, street lighting and traffic controls. Because state road maintenance is not a local responsibility, it is not included further in this study.

The county road department is responsible for the maintenance of all non-state roads in the unincorporated areas of the county; and the cities are responsible for all non-state roads and streets in the incorporated areas. County road maintenance is funded according to state law from the county road fund with half its revenues from property taxes. Revenues for city street maintenance are, in part, from the city current expense funds. Together the county and cities receive \$2.4 million of state-shared motor vehicle fuel taxes. In 1980 local government budgeted \$6 million for the maintenance of 1,205 miles of non-state public roads and streets.

Schools

The five school districts in Kitsap County had a combined enrollment of 28,773 students for the 1979-1980 school year. The state of Washington has assumed responsibility for full funding of "basic education" since 1977. From Table 9, school districts in Kitsap County received 77 percent of their

TABLE 9

DISTRIBUTION OF 1979-1980 SCHOOL YEAR REVENUE
BY SOURCES FOR SCHOOL DISTRICTS IN KITSAP COUNTY

	Dollars	Percent
Local Property Tax (special levies)	\$ 4,456,143	7.32
Real Estate Transaction Tax	2,969,989	4.88
State Funds		
Estimate of Funds from State Levy ^a	34,636,749	56.87
Other Sources	<u>12,074,800</u>	<u>19.83</u>
Total State Funds ^b	46,711,549	76.70
Federal Funds		
Public Law 874 Funds	2,428,077	3.99
Other	<u>1,442,932</u>	<u>2.37</u>
Total Federal Funds	3,871,009	6.36
Local Non-Tax Revenues	391,982	0.64
Local Reimbursement	1,591,801	2.61
Federal Reimbursement	787,179	1.29
Payments from Other School Districts	<u>123,149</u>	<u>0.20</u>
Total	\$60,902,739	100.00

Source: Various budgets assembled by the author.

^a Approximately 46 and 54 percent, respectively, of 1979 and 1980 property tax revenues contribute to the 1979/1980 school year budget.

^b Approximately 25.85% of state funds is from the state property tax levy. School districts in Kitsap County receive approximately 3.3732% of state funds for K-12 education.

operating revenues in the 1979-80 school year from the state, six percent from the federal government and seven percent from local special levies. Funds from many sources contribute to the state apportionment for education. The state school levy⁴ on all taxable property provided 27 percent of state apportionment funds as shown in Table 10.

TABLE 10

SUMMARY OF WASHINGTON STATE SCHOOL REVENUES,
1979/1980 SCHOOL YEAR

A.	Total - all school budgets in state	1,817,321,901
B.	Total state apportionment to all schools in the state	1,251,604,549
C.	Total state school levy - statewide (interpolated 1979 and 1980 regular levy data for state)	336,132,026
D.	Percent of state apportionment from the property tax. $C \div B = D$	26.85%
E.	Total state apportionment to school districts in Kitsap County	46,711,477
F.	Percent that the county school apportionment is of total statewide apportionment. $E \div B = F$	3.73%
G.	Total state levy received by school districts in Kitsap County from the state. Estimated from $[D \times E] = G$	12,074,800
H.	Total state levy contribution from Kitsap County to the state apportionment fund (interpolated 1979 and 1980 regular levy data for the county less Mason school district)	9,187,600
I.	Total - all school budgets in Kitsap County	60,902,739

Local special levies for school operation and maintenance are now limited to approximately 10 percent of each school district budget. All special levies require voter approval and those for schools are intended only for "enriching" the "100 percent funding" provided by the state. Half of the federal revenues received were under Public Law 81-874 which are provided in lieu of property taxes to federally impacted school districts. These funds neither enter into the state apportionment formula nor affect the limit on special school levies; therefore, they are analogous to the federal government paying a special levy. If federal funds had been considered in calculating the state apportionment, school districts in Kitsap County would have experienced a reduction in total operating revenues.

Other Public Services

Other public services provided by local government include legislative, administrative, financial management, planning, judicial, and detention/correction. The operating costs of these activities, like those of police protection and county/city parks and recreational services discussed above, are funded from current expense revenues. The cost for these services accounted for 17 percent of all local government expenditures budgeted for in 1980. Since little change in the level of these services would occur if all

personnel support functions now provided by the Navy were instead provided by the local non-military sector, they are not addressed further in this study.

THE PROPERTY TAX

Prior to 1930, the property tax provided over 70 percent of local and state revenues. Although the property tax has gradually lost prominence, it continues to be an important source revenue which financed 30 percent of all 1977 local government operating costs nationwide. In 1955, a report by the Commission on Intergovernmental Relations (p. 21) stated that:

...the property tax has traditionally been the chief source of revenue for most local governments in the United States. Recent years have witnessed a concerted effort in state legislatures and local governing bodies to free local governments of exclusive dependence upon this single source of revenue. In some parts of the country considerable progress has been made in this direction. Substantial increases in state aid to local governments have also contributed to relieve the property tax from carrying the entire burden of supporting local governments. Nevertheless it remains the mainstay of most local revenue systems.

In Kitsap County, reliance on the property tax parallels the national average. School districts in Kitsap County received 27 percent of their operating revenues from state and local levies and all other local governmental entities received 32 percent.

Prior to 1974, the property tax was a responsive source

of revenue used to balance the budgets of local governments. The residual remaining after all non-property tax revenues had been estimated and budgeted for was simply divided by the assessed value of all taxable property, or tax base, to determine the tax or levy rate.

$$\frac{\text{Budget Residual}}{\text{Tax Base}} = \text{Levy Rate}$$

The tax was then collected accordingly to provide revenues equal to the residual.

The total amount of property taxes from regular levies is limited to one percent of assessed value.⁵ As the value of property increased, the amount of property taxes collected could increase at the same rate. In 1972, major revisions were made to Washington State laws resulting in the "106 limitation"⁶ which has had a substantial impact on property tax revenues through yearly decreases in the regular levy rate.

Essentially, this law limits local governments to an annual increase of six percent in property tax revenues collected from property which was on the tax rolls in the previous year plus revenue from new construction at the current rate. The effect of this law is to limit revenue increases rather than rate increases and to cause the tax rate to actually decline each year during periods when property values are increasing at a higher rate than six percent.

(Washington State, 1977a, p. K-10)⁷

Special levies, which must be voted on each year and approved by a majority of at least three-fifths, have been used to provide additional operating revenues. However, they

are an inefficient means of augmenting the ever limited regular levies. Local government has had to place increased reliance upon other revenue sources such as fees, fines, user charges, and federal and state revenue sharing. As previously mentioned, revenue sharing sources are often unpredictable and local governments prefer not to depend upon them for operating funds. Subsequently, the inability to generate sufficient revenues may be contributing to a lower level and quality of local public services throughout the state.

The Tax Base

The property tax in Washington State, as in most states, is a tax on the capital or rental value of tangible assets. When first written, the laws generally included all property, tangible and intangible, in the tax base. However, problems with accountability and double taxation soon precluded intangible property, household goods and personal effects, from the property taxation. Real property and business and commercial personalty comprise most of the tax base today.

The assessment or valuation of property to determine its tax liability is a local responsibility except for public utilities which are assessed by the state. A property owner classified as a public utility may have property subject to assessments by several taxing jurisdictions. Assessment of these properties by the state helps insure that assessments are equitable.

With property tax laws and administration varying from state to state and among local taxing jurisdictions, the property tax is not a single tax but "an incredibly complex collection of taxes with literally thousands of local variations (Netzer, 1966, p. 1)." In Washington State, the property tax is levied on 100 percent of the true and fair value of all property assessed at its highest and best use.⁸ However, the law does provide for the assessment of designated forest, open space and agricultural land at its current use.⁹

Local taxing jurisdictions in the state are each required to appoint a board of equalization which reviews and adjusts local assessments in order to insure that all local property is equitably assessed. The state follows with its equalization study to determine a 100 percent true and fair (actual) value for each taxing jurisdiction.

The state school levy is apportioned to each taxing jurisdiction according to the actual value as determined by the state study. In 1979, the indicated ratio of locally assessed property value to state assessed property value in Kitsap County was 83 percent. For all taxing jurisdictions in the state, the average indicated ratio was 74 percent with a high of 98.3 and a low of 67.5 percent (Washington State, 1980, p. 44), an indication of equitable property tax administration throughout Washington State.

Assessment of Property Value

Most local and state agencies in Washington do not maintain real property assessment data according to land use categories; therefore, the statistical data collected by the U.S. Bureau of Census provides the best measure tax base distribution. From Table 11, the distribution of property values for Washington State closely parallels the national average. Kitsap, however, has a much higher percentage of residential property and a lower percentage of industrial/commercial property in its tax base. This difference has been attributed to the property tax exempt status of U.S. Navy property.¹⁰ Pierce County also has a large amount of military owned real property but does not seem to experience the same tax base imbalance.

Possible mitigating factors, in the case of Pierce County, may be the increased level of urbanization and the location of a major aluminum processing plant in the county. Other factors might include differences in history, geography, and both public and private actions.

Assessment of all taxable real property at its "highest and best use" determines the tax base. Once the assessor has determined what is the highest and best use of a property, the market value of the land and the improvements are then determined. As defined by the courts, market value may be paraphrased as the highest price estimated in terms of money, that a property will bring when exposed for sale on

TABLE 11

PERCENT DISTRIBUTION OF THE GROSS ASSESSED VALUE OF
 LOCALLY AND STATE ASSESSED PROPERTY, BY TYPE,
 AND PERSONAL PROPERTY, 1976

	National	Washington State	Pierce County	Kitsap County
Locally Assessed Real Property				
Residential	47.8	42.0	49.9	61.2
Commercial 13.5	19.5	14.0 5.8	17.3	7.6
Industrial 6.0 }				
Acreage & Farms	9.6	13.0	10.7	14.5
Vacant Platted Lots	3.1	3.9	3.0	6.4
Other	<u>.8</u>	<u>.1</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	80.8	78.7	80.9	89.7
Locally Assessed Personal Property	12.3	15.5	14.9	5.3
State Assessed Public Utilities ^a	<u>6.9</u>	<u>5.8</u>	<u>4.3</u>	<u>5.0</u>
Total	100.0	100.0	100.0	100.0

Source: U.S. Department of Commerce, 1979, tables 3, 5, and 19.

^a Includes both real and personal property.

the open market, allowing for a reasonable time to find a knowledgeable purchaser who is aware of the uses to which it is capable of being used.

Many forces act upon the market value of property. Actions of large corporations to expand or locate in an area increase the demand for residential and industrial property. Federal, state, and local regulations and initiatives affecting taxes, the construction of public infrastructure, interest rates and the availability of capital for development may increase or suppress property value. The information and services of the private real estate industry are yet other factors that impact upon property values.

The price paid for property by a willing buyer to a willing seller, neither being under abnormal pressure and both reasonably informed, should be a fair representation of its market value. Comparing the sales price of similar properties is one of three principal approaches to market value. Often, there is a dearth of comparable sales price data, or alternative measures of value are desired. Complementing the market data approach are the cost and income approaches.

Estimating property value by the cost approach is a two-step process. First the value of land is determined based, if possible, upon the sales of comparable land. To this is added the depreciated replacement or reproduction cost of buildings and other improvements.

In applying the income approach, the assessor first determines the direct capitalization rate or net income factor for comparable properties that have been sold recently. The simplest derivation of the direct capitalization rate is the net operating income divided by the property sales price. The value of the property being assessed is then calculated by dividing the net operating income generated from it by an appropriate direct capitalization rate.

Residential properties are almost always assessed using a combination of the cost approach and the market data approach. All three approaches to value can generally be applied in the appraisal of commercial property (Washington Department of Revenue, 1970, p. 47).

In the assessment process, land value is determined separate from the value of improvements. From Table 12, the assessed value of land was 44 percent of all taxable property value; improvements, 47 percent; and personal property, 9 percent. However, the quality of separation between land and improvements is highly questionable. Netzer (1966, p. 211) stated that "neither assessors nor taxpayers have any need to be greatly concerned about the accuracy of anything but the total assessment."

The percentage distribution of gross assessed property values according to general land use categories for Kitsap

TABLE 12

DISTRIBUTION OF ASSESSED VALUE OF TAXABLE PROPERTY IN KITSAP COUNTY, 1975

	Percent	Assessed Value
Land		
Undeveloped: Farms and Acreage	14.5	361,820,000 ^b
Vacant Platted Lots	6.4	159,700,000 ^b
Developed: Residential, Commercial, and Industrial	<u>23.37</u>	<u>583,154,000^b</u>
Subtotal	44.27	1,104,674,000 ^a
Improvements	47.04	1,173,829,000 ^a
Personalty		
Locally Assessed	4.98	124,198,000 ^a
State Assessed	<u>3.71</u>	<u>92,650,000^a</u>
Subtotal	8.69	216,808,000
Total	100.00	2,495,311,000 ^a

Source: Calculated by the author using data from the Kitsap County Assessor, Washington State Department of Revenue, and Bureau of Census data as tabulated in Table 11.

^a The aggregate assessed value of land and improvements, and the assessed value of personal property are as reported by the Washington State Department of Revenue.

^b The distribution of land assessed valuations was derived using data from Table 11.

County (U.S. Department of Commerce, 1978, p. 243) and the assessment values in Table 12 were used to calculate a distribution of assessed values for land and improvements by land use in Table 13. By dividing the estimated value of land for each land use category by the respective land areas shown in Table 3, average values per acre by land use are derived in Table 14. Assuming that the ratio of land to improvement value and that the total assessed value of land is reliable, then the per acre values determined in Table 14 could provide a fair measure of the value of tax exempt land.

The value of property in Washington State that is wholly exempt or excluded from the property tax is neither known nor being assessed. According to state law, county assessors are required to list and value all exempt property. However, assessors have generally devoted little attention to this area of responsibility, lacking sufficient staff to assess the taxable property, let alone tax exempt property (Washington State, 1971, p. 1). In addition, Netzer (1972, p. 271) has stated that there has probably been a reluctance among assessors to engage in a purely academic exercise of valuing exempt property when their job has been to apportion tax liability among taxpayers. Accurate assessments are made for the class of properties which by law are partially exempt from the property tax.

TABLE 13

DISTRIBUTION OF REAL AND PERSONAL PROPERTY GROSS
ASSESSED VALUE BY USE CATEGORY FOR KITSAP COUNTY, 1979

	Percentages		
	Total ^a (3)	Land/Improvements Distribution (2)	Assessed Value
Residential			
Land	20.3	33.2	518,870,000
Improvements	<u>40.9</u>	<u>66.8</u>	<u>1,043,698,000</u>
Subtotal	62.6	100.0	1,562,568,000
Commercial/ Industrial			
Land	2.5	33.2	64,545,000
Improvements	<u>5.1</u>	<u>66.8</u>	<u>129,831,000</u>
Subtotal	7.8	100.0	154,376,000
Undeveloped Land And Vacant Platted Lots	20.5		521,520,000
Subtotal Land and Improvements			2,278,464,000
Personalty	8.7		216,847,000 ⁽¹⁾
Total	100.0		2,495,311,000 ⁽¹⁾

Sources: Calculated by the author using data from (1) the Kitsap County Assessor; (2) Washington State Department of Revenue and (3) Bureau of Census Data as tabulated in Table 11.

^a The percent distribution varies from that in Table 11 due to the use of actual assessment data for personalty and the integration of state assessed utility values with the estimated value of locally assessed commercial and industrial property.

TABLE 14

ESTIMATED GROSS ASSESSED VALUE PER ACRE OF LAND
BY USE CATEGORY, 1979

Category	Assessed Value	Acres	Assessed Value/Acre
Residential	\$ 518,870,000	10,551.1	\$49,177
Commercial/ Industrial	64,545,000	4,000.2	\$16,135
Undeveloped Land (Agriculture, Forest, Vacant Platted Lots)	521,520,000	233,144.6	\$ 2,337
Tax Exempt (Education, Parks, Open Space, Parking, Streets, Government)	<u>-0-</u>	<u>20,780</u>	<u>-0-</u>
Total	\$1,104,935,000	268,476.0	\$4,116/acre

Source: Calculated by the author from Tables 3 and 13.

Laws exempting local and state government property and private property vary from state to state. In most instances, exemptions exist (1) to facilitate administration of the property tax, (2) as a subsidy to individuals or organizations or (3) because the property is owned or used by government. Following an overview of the former two rationale, Chapter Four reviews the history of the federal immunity from the property tax and the reports of previous groups which have examined the problem.

NOTES

1. Capital expenditures funded in part by special and bond levies were not included in this study. Since 1974, the federal government has funded more than \$55.5 million for capital improvements under section 608 of Public Law 93-552 to meet the demands imposed by the Trident submarine support base. This funding has presently alleviated to a greater extent the \$80 million (see Appendix B) in lost bonding capacity resulting from a tax base reduction attributable to the tax exempt status of Navy property.
2. Appendix A provides a summary of all property taxes levied in 1980, tax rates and respective tax bases for the various local governmental entities.
3. Water and sewer services are by law self-financing and therefore are excluded from further consideration in this study.
4. State average for the 1980 tax year was \$3.44/\$1,000 assessed valuation.
5. R.C.W. 84.52.050.
6. R.C.W. 84.55.010 and Wash. Const. Art III, Sec. 2.
7. The law controls the total dollar amount of the regular levies for the taxing district but does not directly limit the regular levy increase for the individual tax-

payer (Washington State, 1974, p. 15).

8. W.A.C. 45-12-330.
9. Wash. Const. Art. VII, Sec. 11.
10. See Washington State, 1977b, pp. K-2,3; Trident Coordinating Office, 1979, pp. III - 3, 4, 5; and U.S. President's Economic Adjustment Committee, 1980, pp. 24, 25.

CHAPTER FOUR

THE EXEMPTION OF MILITARY INSTALLATIONS FROM PROPERTY TAXATION

About 760 million acres, or roughly one third of the United States, are federally owned. Almost one half of these lands is located in Alaska. Excluding Alaska, over 90 percent of these lands is located in the 11 western states. But federal land ownership is also important to other parts of the country. All 50 states and approximately 1,000 counties have federally-owned land within their boundaries (U.S. Comptroller General, 1979, p. 1). About 29 percent of the land in Washington State is federally owned (Public Land Law Review Commission, 1970, pp. 327-9).

The Department of Defense has jurisdiction over 4 percent of all federal land or 1.4 percent of the total land area of the United States and less than one percent in Washington State. The U.S. Navy owns 9,878 acres of land in Kitsap County or about 4 percent of the county's land area.

PROPERTY TAX EXEMPTIONS IN WASHINGTON STATE

All property in Washington State exempt from property taxation is defined by law (R.C.W. 84.36). Property is exempt either to facilitate property tax administration; to provide a subsidy to activities considered desirable by society or to private agencies recognized as performing a

public service; or because it is owned or used by either the local, state, or federal government.

Property exempt to facilitate administration includes household personal property, intangible personal property, and mobile property such as motor vehicles, mobile homes, and aircraft. License fees required of the latter provide revenues in lieu of property taxes. Generally, the cost of levying a tax on household or intangible property would exceed obtainable revenues. Household personal property is not only difficult to locate and evaluate, but doing so would require an invasion of privacy that would be objected to by many citizens. Intangible personal property is easy to conceal and, because it also represents ownership rights to taxable property, a tax on it would be double taxation.

Partial and full exemptions are granted for activities considered desirable by society. The former includes property owned by senior or disabled citizens and property assessed at current use instead of highest and best use. Qualified senior or disabled citizens with incomes of \$10,000 or less may be exempt from special levies, and regular levies on the first \$15,000 of residential value. Designated forest, agricultural or open space land are afforded a subsidy when assessed at current instead of at highest and best use. Full exemptions are provided religious and benevolent organizations.

Private organizations providing collective or public

goods and services have traditionally been exempt on the basis that if they did not exist government itself would be called upon to provide these goods and services. Within this category are educational institutions, orphanages, homes for the aged, hospitals, boy scouts, girl scouts, boys clubs and humane societies.

The exemption of government owned property from taxation extends to all three levels of government, school districts, and other public entities. Local government has never taxed itself or other local public functions. To do so would be "like taking out of one pocket what one is putting into the other" (Jensen, 1931, p. 139). Such an unproductive effort would only increase the administrative costs for local government. The state constitution charters local governments in Washington and defines their authority, as well as mandates intergovernmental immunity of federal, state, counties, school districts, and other municipal corporations from taxation.¹ Financial payments by the state are made to local jurisdictions in Washington under one tax equivalency and two receipt sharing programs. The former is for state game lands and the latter for (1) forests and (2) harbor areas and tidelands within an established port district (Advisory Commission on Intergovernmental Relations, 1978, p. 27).²

THE HISTORY OF FEDERAL PROPERTY TAX EXEMPTION

The exemption of federal property from ad valorem taxation

is not explicitly provided for in the U.S. Constitution. Judicial interpretation of the Constitution, beginning with a 1819 Supreme Court decision, has held that federal property is immune from taxation except as authorized by Congress and is provided for in the Washington State Constitution.³ In the case, McCulloch vs Maryland, the Supreme Court held that Maryland could not tax a bank chartered by Congress and a property of the United States.

Chief Justice John Marshall wrote that the power to tax involves the power to destroy ... If the states may tax one instrument, employed by the federal government in the execution of its powers, they may tax all means employed by the government, to an excess which would defeat all the ends of government. This was not intended by the American people. They did not desire to make their government dependent on the states.⁵

As early as 1803, payments related to federal ownership of land were authorized by Congress. Looking at the federal land related payment programs that have accumulated over the years, there is both a lack of consistent rationale and uniform procedure for determining payments. Most programs have been framed to meet the pressures of the moment with expediency and compromise being the rule (U.S. Congress, 1943b, p. 281).

FEDERAL PAYMENT PROGRAMS

Currently providing payments to state and local governments containing federal property are 25 programs authorized

by Congress. These may be generalized into three categories with payments determined by (1) receipt sharing on the basis of a stated percentage ranging from 5 to 90 percent of gross or net revenues from the use of federal land, (2) payment formulas with tax rate and property valuation as factors, and (3) negotiation or per unit rates which are not directly related to property tax rates and assessed values. A partnership between the federal government and state and local government characterizes the first category which includes fourteen of the 25 programs. Virtually none of the six programs in the second category pays an amount exactly equivalent to a property tax. The five programs in the last category include the new payment law, Public Law 94-565, enacted by Congress in 1976; and the Educational Impact Grants, Public Law 81-874, adopted by Congress in 1950, the only program providing payments related to the impact of military installations. A patchwork of uncoordinated programs best characterizes the federal payment system.⁶

Allegations that adverse fiscal problems of state and local governments are due to federal land ownership have a long history. Since 1939, at least 12 reports⁷ have been prepared by the federal government addressing the immunity of its property from ad valorem taxation. All federally owned lands were the subject of reports prior to and including that prepared by the Public Land Law Review Commission (1970).

More recently, two reports addressed primarily 90 percent of federally owned land under the jurisdiction of the Department of Agriculture (National Forest Service) and the Department of the Interior (Bureau of Land Management).

If the function of a federal activity is proprietary, supplying "commodities and services to the general public which are generally supplied by private enterprise," the U.S. Treasury Department report stated that federally owned property should then be taxable (U.S. Congress, 1943b, p. 273). Property that has long been in the public domain and used for traditional governmental activities, and new properties of the same class, however,

...should ordinarily be exempt with no compensation from federal funds. The affairs of all concerned have long since been adjusted to the exemption status (U.S. Congress, 1943b, p. 272).⁸

In discussing national defense properties, one of ten categories of federal land defined, the report concluded that "since the function is entirely governmental, and (that) many of the holdings are of long standing," then the principle of non-payment should apply (U.S. Congress, 1943b, p. 286).

Principles considered by the Federal Real Estate Board (U.S. Congress, 1943a, pp 1, 2) included that the amount of federal contribution

...take into consideration the extent of actual tax loss, the local benefits from federal ownership and its effects on requirements for services of state and local

governments; (and)... ought not to be made in such a way as to encourage perpetuation of economic units of government or to impede reforms in the organization and functioning of local government.

With respect to real estate used a considerable time for national defense, the board recommended continued exemption and a policy of making no payments. The sizable concentrations of federal personnel and developmental work, it was said, contributed significant benefits to the communities -- clearly offsetting any loss in taxes caused by federal ownership (U.S. Congress, 1943a, pp. 2, 17).

The most thorough report at the time encompassing the entire range of federal property and payment programs was prepared by a study committee for the Commission on Intergovernmental Relations (1955). It explicitly stated (p. 64) that "federal property (both real and personal) used or held for activities serving primarily national or broad regional purposes should share the burden of supporting local government..." However, the committee recommended (p. 56), to the contrary, that federal properties used for traditional purposes of government, whether or not serving primarily local purposes, should not be "divested of their traditional tax immunity." Use of property was a primary distinguishing factor considered by the committee in its recommending payment status (p. 34). However, the subsequent report of the Public Land Law Review Commission (1970, pp. 237-243)

differed from previous reports. Payments were unequivocally recommended to compensate for tax immunity on all lands retained in federal ownership irregardless of use of whether the land was long in the public domain. The Commission did not explain why they rejected the latter distinction thought important in preceeding reports. Because there was "no evidence that the economic benefits flowing from the activities carried on at these lands would not be equalled or exceeded if the lands were privately owned and were part of the tax base," the Commission (p. 238) felt "it would be impractical to exclude from the (payment) program any types or categories of land..."

The Advisory Commission on Intergovernmental Relations (1978) examined the fairness of federal payments related to nearly 90 percent of federal open lands. The study (p. 2) did not cover payments made under the mineral receipts program, nor federal property excluded from present payment programs. Counties covered under Public Law 94-565 were found to be neither fiscally advantaged nor fiscally disadvantaged, in comparison to similar counties having little or no federal land, by the pre-1976 level of compensation (p. 5). The Commission also concluded (p. 5) that payments made under Public Law 94-565 were "not of sufficient magnitude to elevate federal land counties to a fiscally 'advantaged' class."

The most recent study by the General Accounting Office (1979) reviewed the amounts paid to state and local governments in eight western states under nine federal receipt sharing programs and supplement payments to these programs under Public Law 94-565. Included under Public Law 94-565 are lands of the National Park Service, National Forest Service, the Bureau of Land Management, the Army Corps of Engineers for use in water resources development, certain inactive and semiactive military installations, certain wildlife reserve areas, and certain lands acquired by states for donation to the federal government (U.S. Comptroller General, 1979, p. 5).

Payments were found to exceed by \$187 million, or an average of one dollar per acre, the amount that would be received on a tax equivalent basis (p. 10). The report concluded by recommending the tax equivalency rationale for most federal land payment programs (p. 50).

APPROACHES FOR COMPENSATING LOCAL AND STATE GOVERNMENTS

In addition to tax equivalency, other approaches for compensating local governments with federally owned land have been examined by the studies discussed previously and include:

- payment in lieu of taxes,
- receipt sharing,
- per capita or per acre of land,

- net fiscal impact of federal ownership,
- comparable tax burden, and
- cost of services.

Under the tax equivalency approach, the federal government would share the costs of local government in the same way as a private owner of similar property (Commission on Intergovernmental Relations, 1955, p. 40). Payments by the federal government would equal the amount forthcoming if the property were subject to property taxes by the local taxing authority. The assessed value of federal property would be determined on the same basis as for privately owned property. Subsequently, this is the only approach that directly attempts to assure a normal tax base for a governmental jurisdiction with federally owned property. Tax equivalency is often the standard used for judging the fairness of other reimbursement programs (Advisory Commission on Intergovernmental Relations, 1978, p. 47). However, no program in use today seeks to pay an amount exactly equivalent to the property tax (p. 22). This is due in part to problems associated with assessing the value of federal property for which there is often no counterpart in the private sector and a total absence of comparable sales data. Also, because federal activities function differently from private, profit maximizing activities, there is no basis for applying the income approach to value.

Characterizing nine programs presently providing compensation to local and state governments is the payment in lieu of taxes approach. Difficulties inherent in tax equivalency are avoided by accepting an approximation of the property tax due on federal property. The approach generally would not be dependent on local property assessment. Instead, an estimate of value might be determined independently by the federal government or through negotiation with local jurisdictions, and either a federally legislated or local tax rate could be used.

Receipt sharing is the rationale behind 14 of 25 federal payment programs. Its popularity with the federal legislature is probably due to the self-financing feature of the approach. Because payments are made with revenues generated from federal lands with forests or mineral reserves, Congress does not have to directly appropriate funds for the programs. There are, however, at least two significant problems with this approach: first, a stable source of revenue is not provided because receipts often vary greatly from year to year; and, second, payments to local governments often exceed the revenues received if the land were privately owned and subject to the property tax.

A rationale for determining payments on a per-capita or per-acre basis characterize the Educational Impact Grants (per-capita) made under Public Law 81-874 and the per-acre

payments to countries under Public Law 94-565. This approach assumes that federal land ownership causes fiscal burdens for local government but recognizes that the amount cannot be determined accurately (U.S. Comptroller General, 1979, p. 38). The number of students whose parents live and/or work on a military installation and the cost per full-time student determines the payment made under Public Law 81-874. Supplemental payments under Public Law 94-565 to jurisdictions receiving payments under nine of the existing receipt sharing programs are calculated to guarantee a total payment of 75 cents per acre.

Federal ownership of property precludes its use for tax paying, profit maximizing purposes. The difference between (1) the net positive or negative fiscal effect of private ownership and (2) the net positive or negative fiscal effect of federal ownership is the net fiscal impact of tax exempt federal land (Advisory Commission on Intergovernmental Relations, 1978, p. 125). While the net fiscal impact is the most comprehensive rationale, it is not a feasible approach. Not only would identifying all factors be virtually impossible but assigning a reasonable dollar amount to each factor would be equally difficult (U.S. Comptroller General, 1979, p. 43).

The basic concept behind the comparable tax burden approach is that value of federal property is some percentage of all property values in the nation. If the ratio of federal

property value to all property values in a local jurisdiction exceeds the national average, then the local government should be compensated for the fiscal burden associated with the excess federal property value. A method of compensation developed along this approach has been used by the Canadian Government since 1950. However, the value of federal property has never been assessed and would be a prerequisite if this approach were to be used.⁹

The most myopic rationale for compensating local governments is the cost of services or imposed expenditures. The local government would be required to estimate the cost of those local government services consumed directly by federal properties. Bell (1977, pp. 178-9) points out that "the cost of services approach should represent only incremental or marginal costs incurred as a result of providing services to the federal government." Difficulties in determining the marginal cost of services and related factors embracing economies or diseconomies of scale pose significant problems in administering this approach.

The scope of this study precludes all but a brief discussion of the various compensation approaches. The approach most favored by this and previous studies is tax equivalency. However, the unique nature of federal property limits its applicability and therefore necessitates the use of some form of payment in lieu of taxes. In the following chapter a

payment in lieu of taxes approach to evaluating the impact that the tax exempt status of Navy property has on Kitsap County is developed and applied.

NOTES

1. Wash. Const. Art. VII, Sec. 2.
2. In the report prepared by the Advisory Commission on Intergovernmental Relations (1978, pp. 22-24) it was stated that "financial payments are made to local governments based on one or more categories of state owned land in 33 states. Local taxation of some state owned land is allowed in sixteen states. Fourteen states neither provide financial compensation nor allow local taxation."
3. Wash. Const. Art 7, Sec. 3.
4. 4 Wheat. 315, 17 U.S. 315 (1819)
5. John M. Dillion, 1903, John Marshall, Complete Constitutional Decisions (Chicago: Callaghan and Company), pp. 252-292, cited by Advisory Commission on Intergovernmental Relations, 1978, p. 18.
6. U.S. Comptroller General, 1979, pp. 52-55, provides a complete listing of the 25 laws currently authorizing payments related to federal land ownership. A succinct discussion of the programs and how payments are made is found in Advisory Commission on Intergovernmental Relations, 1978, pp. 17-22.
7. U.S. Congress, 1943a; U.S. Congress, 1943b; Commission on Intergovernmental Relations, 1955 (p. 19, footnote 1,

cites the previous two reports and six others); Public Land Law Review Commission published its report (1970) based in part on a report it contracted for from EBS Management Consultants, Inc. (1970); Advisory Commission on Intergovernmental Relations, 1978; and U.S. Comptroller General, 1979.

8. See also Commission on Intergovernmental Relations, 1955, p. 68.
9. For a further discussion of the method used by the Canadian Government, see Advisory Commission on Intergovernmental Relations, 1978, pp. 28-9 and 135-6.

CHAPTER FIVE

MEASURING THE IMPACT OF TAX EXEMPT U.S. NAVY PROPERTY ON THE FISCAL CAPACITY OF KITSAP COUNTY: AN APPROACH

In this chapter, a hypothetical tax bill is calculated for the Navy as a measure of the effect that the tax exemption of Navy property has on the operating and maintenance fiscal capacity of local government in Kitsap County. While the tax equivalency approach is most desirable from the standpoint of equity among all taxpayers, the absence of critical information -- comparable sales and net or gross income data required to assess Navy property on the same basis as privately owned taxable property -- precludes its use. A payment in lieu of taxes approach approximating tax equivalency provides the best alternative.

Any procedure for calculating a payment in lieu of taxes requires that a tax base be defined, the amount of revenue required from the tax be determined and pertinent assumptions be explicitly stated. The existing tax base of Kitsap County plus an appropriate value for all Navy property except that identified as tax-exempt or quasi-local government yields a revised tax base. Present operating and maintenance revenues from the property tax and those necessary to fund the quasi-local government services (see Table 15) provided by the Navy comprise the adjusted amount of revenues required

TABLE 15

ESTIMATE OF THE COST FOR LOCAL GOVERNMENT TO PROVIDE
THE QUASI-LOCAL GOVERNMENT SERVICES NOW PERFORMED BY
THE NAVY FOR ITSELF, 1980

Category	Level of Quasi- Local Government Service Provided by the Navy		County Cost Per Unit of Similar Effort	Cost for County to Provide the Service
Public Safety				
Police	34	MY ^a	\$32,514/MY	\$1,105,476
Fire Protection	28	MY	\$23,301/MY	\$ 652,428
Parks and Recreation	26	MY	\$22,831/MY	\$ 593,606
Roads	21.75	MI ^b	\$ 5,017.5/MI	<u>\$ 109,131</u>
Total				\$2,460,641

Source: Tables 4 and 8.

^a Man years (see Table 8)

^b Miles (see Table 8)

of property tax levies. An implicit assumption is that all non-property tax revenue sources for local government remain unchanged.

For new construction which not only adds to the tax base but also increases services required of local government, property tax revenues are generally forecasted in fiscal impact analyses by applying the current levy rates against the total value (construction cost) of the new development. With the exception of new construction related to the Trident submarine support base, the Navy activities have long been established in Kitsap County. While the tax base is increased by the value of Navy property, the absolute level of operating and maintenance effort for the county essentially remains unchanged; therein lies the rationale for increasing the tax base and calculating a revised tax rate.

INCREASED REVENUES FOR QUASI-LOCAL GOVERNMENT SERVICES

Chapter Two identified quasi-local government services provided by the Navy to its personnel support activities. There are innumerable differences related to character, quality, and quantity between these services and their local government counterparts. Making adjustments either for the level of effort provided by the Navy (see Table 4) or to the cost per unit of effort (see Table 8) experienced by Kitsap County for similar services is beyond the scope of this study. Therefore, a cost that might be experienced by the county if

it performed the quasi-local government services now provided by the Navy for itself has been calculated in Table 15 without any adjustments. The total cost of quasi-local government services for 1980 according to the above assumptions is \$2,460,641. Later, in calculating the hypothetical tax bill, subsequent assumptions dictate that the tax bill for fire protection be determined separate from that for the other government services.

VALUATION OF NAVY REAL AND PERSONAL PROPERTY

Each component of property -- land, improvement, and personalty -- was examined separately in determining a value for Navy property in Kitsap County. From the Detailed Inventory of Navy Real Property (U.S. Department of the Navy, 1978), the replacement cost for Navy industrial, commercial/retail, and residential improvements were compiled (see Table 2). Considering that almost 75 percent of the Navy improvements in Kitsap County were constructed prior to 1950, and to account for varying degrees of physical, economic and functional depreciation, the replacement cost for industrial and commercial/retail improvements were depreciated 50 percent. For Navy residential improvements, replacement costs closely approximate market values; therefore, no depreciation was applied. The total value of Navy improvements is calculated in Table 16 to be \$742 million for 1979.

The purpose of the Navy is to contribute to national

TABLE 16

VALUATION ESTIMATES FOR U.S. NAVY PROPERTY IN KITSAP COUNTY, 1979

Category	Land		Improvements				Personal Property		
	Developed		Undeveloped		Replacement Coat (3)	Percent Depre- ciation	Personal Property		
	Acrea	Value per Acre (2)	Valuation	Acres (1)			Value per Acre (2)	Value per Valuation of Improvements (4)	Valuation
Industrial	813.8 X \$16,135 = \$13,131,000	7324.3 X \$2,337 = \$17,117,000	\$1,330,439,000 X 50% = \$665,220,000	\$0.76/\$1	\$505,567,000	\$1,201,035,000			
Commercial/ Retail	14.2 X \$16,135 = \$	229,000	127.5 X \$2,337 = \$	298,000	\$	49,938,000 X 50% = \$ 24,969,000	\$0.76/\$1	\$ 18,976,000	\$ 44,472,000
Residential	51.0 X \$49,177 = \$ 2,508,000		459.3 X \$2,337 = \$ 1,073,000	\$	52,265,000 X -0- = \$ 52,265,000	-0-	-0-	\$ 55,846,000	
Total		\$15,868,000		\$18,488,000		\$742,454,000			\$1,301,353,000

Source: Calculated by the author from: (1) Table 2, (2) Table 14, (3) Table 3, and (4) Appendix B.

defense. In preparation for various contingencies the level of personal property accountable to the Navy can be assumed to greatly exceed that of its private sector counterpart. From Appendix C, the average value of personal property in Kitsap County is 72 dollars per hundred dollars of industrial and commercial/retail improvements assessed valuation. Multiplying this times the value of respective Navy improvements, the result shown in Table 16 is a personal property value of \$524 million.

Arriving at a value for Navy land involved a web of assumptions, data, and calculations. The acres of improved/other and unimproved Navy land from Table 2, the percent distribution of taxable property assessed valuations from Table 11, the distribution of land use by acres from Table 1, the total assessed valuation of taxable property in Kitsap County for 1979 less that for personalty from Table 13 (subtotal for land and improvements), and the distribution of land and improvements from column 2 of Table 13 provided the basis for estimating the value of Navy land. The respective average value of land by use and whether developed or undeveloped was calculated for Kitsap County (see Table 14) and applied to the acres of Navy land compiled in Table 2. The above is summarized in Table 16 with an estimated Navy land value of \$34 million dollars. The total valuation determined for Navy real and personal property in Table 16

totals \$1.3 billion: industrial, \$1.2 billion; commercial/retail, \$44.5 million; and residential, \$55.8 million.

THE IMPACT OF TAX EXEMPT NAVY PROPERTY

The positive or negative effects resulting from the tax exemption of Navy property is calculated for three categories of local government: (1) fire protection, (2) education, and (3) all other local government services. The same approach is used for categories (1) and (3). A different procedure is required for education due to the state assuming responsibility for full funding of basic education and the existing payments in lieu of taxes made by the federal government under Public Law 81-874 to individual school districts impacted by the Navy.

Fire Protection

Providing fire protection to all Navy facilities is a complement of full-time firemen. In Kitsap County, the only local jurisdiction served by a full-time fire department is the city of Bremerton.

Assumptions germane to the following calculation include:

- The industrial/operational property of the Navy is assumed to be located in the unincorporated areas of the county and not included within a fire district. Fire protection to this category of property is the exclusive responsibility of

the Navy. Therefore, the industrial/operational property is not included within a fire district and not subject to any property tax levies for fire protection.

- All other Navy property is assumed, for the purposes of this calculation, to be within the jurisdiction of the city of Bremerton. Bremerton is chosen due to its having the only full-time fire department in the county and therefore offers some degree of comparability to fire protection service provided by the Navy.

The fire protection budget of Bremerton was \$1.5 million in 1979; approximately 15.7 percent or \$239,000 was funded from property tax revenues. Assuming that Bremerton provides the additional fire protection services indicated in Table 15, its fire protection budget would increase by \$652,000 to \$2,152,000. If the present funding allocated to the property tax and the increase were borne out of property tax revenues, a levy rate related to fire protection would equal \$1.67/\$1,000 assessed valuation, calculated as follows:

$$\frac{PTR_{FPB} + Cost_{QLGF}}{TB_B + VNP_{C/R,R}} = ALR_{FPB}$$

$PTR_{FPB} = \$239,000 =$ Fire Protection costs for the city of Bremerton funded from Property Tax Revenues in the city of Bremerton.

$\text{Cost}_{\text{QLGF}} = \$652,000 = \text{Cost of Quasi-Local Government}$
Fire protection.

$\text{TB}_B = \$435,068,000 = \text{Tax Base for the city of}$
Bremerton.

$\text{VNP}_{\text{C/R,R}} = \$100,318,000 = \text{Value of Navy Property,}$
Commercial/Retail and Residential.

$\text{ALR}_{\text{FPB}} = \$1.67/\$1,000 = \text{Adjusted Levy Rate for Fire}$
Protection in the city of Bremerton.

The hypothetical tax follows by multiplying the adjusted levy rate (ALR_{FPB}) by the value of Navy property ($\text{VNP}_{\text{C/R,R}}$) and then crediting the Navy for the fire protection it now provides ($\text{Cost}_{\text{QLGF}}$) to yield a property tax credit ($\text{PT}_{\text{Credit}}$) to the Navy of \$485,000.

$$[(\text{ALR}_{\text{FPB}}) \times (\text{VNP}_{\text{C/R,R}})] - (\text{Cost}_{\text{QLGF}}) = \text{PT}_{\text{Credit}}$$

Other Local Government Services

The positive or negative impact that the presence of tax exempt Navy property has on all local government operating and maintenance revenues derived from the property tax, except those for fire protection and education, is determined in the aggregate. The revised property tax revenue requirement of local government has been derived as follows:

a.	From all property tax revenues for local government (except school districts)	\$	10,947,347
b.	Was subtracted property tax revenues for fire districts . . . and those allocable to municipal fire protection	(\$	1,113,289)
		(\$	277,465)
c.	To subtotal Property Tax Revenues for Other Local Government Services (PTR _{OLGS})	\$	9,556,593
d.	To this is added the cost identified with all other Quasi-Local Government Services, except fire protection, provided by the Navy (COST _{QLGO})	\$	1,808,213
e.	To yield an adjusted property tax revenue requirement of	\$	11,364,806
f.	To determine an adjusted levy rate, the 1979 Tax Base for Local Government (TB _{LG})	\$	2,488,606,124
g.	Is added to the estimated Value of Navy Industrial, Commercial/Retail, and Residential Property (VNP _{I, C/R,R})	\$	1,301,353,000
h.	For an adjusted tax base of	\$	3,789,959,120

Dividing the adjusted tax base into the adjusted property tax revenue requirement determines an Adjusted Levy Rate of \$3/\$1,000 for Other Local Government Services (ALR_{QLGO}).

From the following equation, a hypothetical property tax due from the Navy for other local government services is an estimated \$2.1 million (HPT_{Due}).

$$[(ALR_{OLGS}) \times (VNP_{I,C/R,R})] - (Cost_{QLGO}) = HPT_{Due}$$

Education

Three sources of school revenue are directly related to the property tax. According to state law, operating and maintenance costs for public education in Washington are fully funded by the state. For the 1979/80 school year, 27 percent of the \$1.25 billion in state apportionment funds were from the state property tax -- \$336 million from an average levy rate of \$4.33/\$1,000 on all taxable property in the state. To "enrich" the funding provided by the state, each school district is authorized a special school operation and maintenance levy limited to ten percent of the school district's budget. Compensating school districts for property tax revenues lost resulting from tax exempt status of federal property in its jurisdiction are federal payments made under Public Law 81-874. For school year 1979/80, school districts in Kitsap County received Public Law 81-874 funds totalling \$2,428,077.

To ascertain the fiscal impact of the tax exempt status of Navy property on the funding of education, the state levy and local special levy will be considered independently.

The state levy is collected from all taxing jurisdictions in the state and redistributed together with other revenues according to a formula based upon the number of students. An assumption in this analysis is therefore made as to the "taxable" value of all military property in Washington.

Federal military installations own about 39,300 acres of land in Washington. The average value of Navy property in Kitsap County as determined by this study -- land, improvements, and personalty -- per acre is \$131,744 (see Tables 3 and 16). Assuming this average is applicable to all federal military property in the state, military property value would have totalled \$5.2 billion in 1979. If this property value was subject to the average state levy of \$4.33/\$1,000 in 1979, the federal government would have contributed \$22.4 million to state school apportionment funds. Based on the share of state apportionment received by school districts in Kitsap County (from Table 10, this was 3.73% in the 1979/80 school year), the districts would have received an additional \$836,000 in state apportionment funds resulting from the state school levy on the assumed value of military property in Washington.

For the 1979/1980 school year, the school districts budgeted \$4.5 million from voter approved special levies for school operation and maintenance expenditures. Special levies are limited by law to ten percent of a school district budget;

in 1980 the maximum levy would have been \$5.4 million. With the addition of Navy property value to the present tax base, the special school levy rate in 1980 would have been reduced 34 percent to \$1.18/\$1,000 from \$1.79/\$1,000. The estimated special levy contribution and state school levy attributable to Navy property together represent a potential 1979/1980 federal contribution of \$2.37 million to school districts in Kitsap County, \$62,000 less than existing federal payments in lieu of taxes made under Public Law 81-874.

Both the state school levy and the local special levies for school operation and maintenance revenues are limited by law. The state apportionment would be increased by only two percent and slightly less for the maximum revenues from local special school levies. Participation of the federal government in a payment in lieu of taxes program paralleling the local property tax system would reduce rather than increase revenues for school districts in Kitsap County.

SUMMARY

According to the many assumptions stated previously or implicit in the foregoing calculations, the net impact of tax exempt Navy property upon the operating and maintenance revenues of local government in Kitsap County is \$1.55 million as summarized in Table 17. If the Navy reimbursed the respective local governments in Kitsap County this amount, property taxes would have been reduced 6.5 percent to \$9.55/

TABLE 17

SUMMARY OF ESTIMATED NET TAXES ATTRIBUTABLE TO NAVY
TAX EXEMPT PROPERTY IN KITSAP COUNTY, 1980

Public Service Category	Gross Tax Attributable to Navy Property	Cost to Provide Quasi-Local Government Services	Net Tax or Negative Fiscal Impact
Fire Protection	\$ 167,531	- \$ 652,000	= \$ (485,000)
All Other Except Education	<u>\$ 3,904,059</u>	- <u>\$ 1,808,213</u>	= <u>\$ 2,095,846</u>
Subtotal	\$ 4,071,590	- \$ 2,460,213	= \$ 1,611,377
Education			
Special Levy	\$ 1,530,092		
State Appor- tionment	<u>\$ 836,000</u>		
	\$ 2,366,092	- -0-	= <u>\$ 2,366,092</u>
Subtotal Net Tax or Negative Fiscal Impact			= \$ 3,977,469
Credit for Federal Payment in Lieu of Taxes under Public Law 81-874			<u>\$(2,428,077)</u>
Total Net Tax or Negative Fiscal Impact			<u>\$ 1,549,392</u>

Total Net Impact Imposes an Increased Tax of \$0.62/\$1,000
on the 1980 Kitsap County Tax Base of \$2,488,606,124.

Source: Calculated from data compiled by the author.

\$1,000 from \$10.17/\$1,000. From the gross tax attributable to the Navy property was subtracted the estimated cost to provide the quasi-local government services and federal payment in lieu of taxes made under Public Law 81-874. Subtracting the net tax revenues attributable to the Navy from the current operating and maintenance revenues and dividing by the 1979 tax base yielded the lower levy rate of \$1.15/\$1,000. Accepting the above, existing payment in lieu of taxes related to Navy property subsequently accounts for 61 percent of payments to local governments in Kitsap County "due" from the federal government.

CHAPTER SIX

CONCLUSION

SUMMARY OF PROCEDURES, ASSUMPTIONS, AND FINDINGS

Land improvements and services of Navy activities in Kitsap County are best compared to the entire local public and private sectors. Two major functions encompassing all Navy activities were identified in Chapter Two: (1) operational and (2) personnel support. Disaggregating the personnel support function resulted in four classes of land use and activities: commercial/retail, residential, private tax exempt, and quasi-local government. The latter two classes of property are exempted from taxation by state law. Services classified as quasi-local government that are provided by the Navy were defined and quantified.

Applicable features of governmental services in the local public sector were identified together with a gross operation and maintenance cost per unit of effort. The various public services and their revenue sources were examined with specific attention to contributions made from the property tax. Discussion of the significant characteristics of the property tax and its function in financing local government concluded Chapter Three.

The exemption of various classes of property from taxation has been debated since the inception of property

taxation. In Chapter Four the history and various rationales encompassing the exemption of federal military installations revealed a multiplicity of uncoordinated programs for compensating local government impacted by the presence of federal property. Prior to 1950, there were no permanent federal payment programs to jurisdictions impacted by military installations. Studies prior to and including that of the Commission on Intergovernmental Relations (1955) stated that most military installations have been long in existence and that any impacts have been adjusted to. Military installations were also viewed as a traditional function of government which, according to the commission, further justified the absence of any payment programs. Later studies made no distinction except for those federal activities providing a service exclusively for the benefit of local taxing jurisdictions. The Public Law Land Review Commission stated almost without qualification that some form of contribution was required.

A government study in 1979 (U.S. Comptroller General) reviewed the rationale for making contributions to local governments and concluded that the most appropriate method of determining compensation is that based upon property tax equivalency. If the intent is to compensate for a loss of property tax revenues, the property tax should be reflected in the method for determining the level of contribution.

In Chapter Five a procedure for determining the tax

burden imposed on the local jurisdiction by the tax exemption of Navy property was developed and applied. The assessed value of taxable property and the total property tax revenues used for local government operating and maintenance expenditures were the only data free of qualifying assumptions. The decision to examine only operating revenues involved the assumption that present federal capital expenditures (under Public Law 93-552, Section 608) in the county substantially mitigated, for the present, the loss in bonding capacity related to the exclusion of Navy property from the tax base.

Assumptions

Numerous assumptions were required in determining a value for Navy property; quantifying and fixing a price for quasi-local governmental services performed by the Navy; and using the present level of all services and improvements, both Navy and non-Navy for calculations throughout, with adjustments for neither economies or diseconomies of scale nor administrative or operational differences. In all cases data sources and data use were explicitly defined to facilitate critical review of the procedure and subsequent findings presented in this study.

Findings

From the assumptions and procedures applied in this study, the property tax allocable to Navy property was found

to increase the property tax burden on the existing tax base by only 6.5% or \$1.5 million. Both this study and its results vary greatly from the Trident Coordinating Office (1979) study. In that study, existing levy rates were simply applied to the replacement value of Navy property to arrive at an impact represented by foregone property tax revenues which were estimated to be \$33 million (p. III-12) -- significantly greater than the \$1.5 million identified in this thesis. The difference is due to a number of factors related to assumptions and procedures.

ADDITIONAL RESEARCH

Further study of the assumptions and procedures described in this thesis present a number of opportunities for further research in public finance, property taxation, and urban planning. The administrative and operational differences between military installations and the local public and private sectors result in a different mix and level of public service and facilities. A better understanding of the differences in costs and characteristics of services and facilities is necessary if a better measure of impact is to be achieved.

Both income capitalization and market data approaches to assessing property value cannot be used to value property of military installations. While the replacement cost approach is applicable, it does not provide a measure of value

comparable with the assessed value of privately owned taxable property. Developing an approach to value for military property that yields a value comparable to the assessed value of private property is another requisite to a more precise measure of impact.

Identified in this study are personnel support services and facilities provided by the Navy. Alternatives for providing these services and facilities, through the local public and private sectors by contract or partnership, merits additional study. Consideration would be given to the location of many personnel support facilities outside the confines of the military installation. The local government would, for example, provide all public services while the federal government would function as a private landowner for land and improvements associated with residential and other personnel support facilities. A careful analysis of the economic and social benefits would have to be measured against the requirements unique to military installations.

OBSERVATIONS

This study has established a procedure for measuring one impact resulting from the tax exemption of Navy property in Kitsap County and has quantified the impact according to various data and assumptions. Additional compensation to local government supplementing payments under Public Law

81-874 seems warranted. The implementation of a compensation policy that reflects the institution of the property tax, however, would likely involve administrative costs far exceeding the economic benefit. Nevertheless, with further study a compensation policy characterized by equity and administrative efficiency may someday be developed.

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APPENDIX A

DISTRIBUTION OF ASSESSED PROPERTY VALUATIONS, LEVY RATES AND PROPERTY TAX REVENUE FOR OPERATING AND MAINTENANCE EXPENSES BY TAXING DISTRICTS, 1980

	Assessed Valuation ^a	Percent of Total County Valua- tion	Levy Rate Per Thou- sand	Property Tax Revenues	Percent of Districts General Operating Revenues
A. County Taxing District ^c					
County (current expense)	\$2,488,606,124 ^b	99.73	1.302	\$ 3,240,165	32
Mental Health	2,488,606,124	99.73	.025	62,215	100
Soldiers and Sailors	2,488,606,124	99.73	.0113	28,121	100
Fire Districts	1,724,832,000	69.12	.6454	1,113,289	100
Library	1,842,097,542	73.82	.5000	921,049	100
Port Districts	1,825,191,000	73.14	.2986	545,020	70
Bainbridge Island Parks	312,140,670	12.51	1.1001	343,393	73
Public Hospital/ Emergency Medical	657,360,500	26.34	.0951	<u>91,082</u>	NA
Subtotal [A]				\$ 6,344,334	41.01
B. Cities and Towns ^d	<u>\$ 646,509,000</u>	25.9	2.25	<u>\$ 1,454,390</u>	15.69
Subtotal [A and B]	\$2,488,606,124 ⁱ	99.73	3.134 ^j	\$ 7,798,724	31.53
C. Roads					
County	\$1,842,097,542	73.82	1.505	\$ 2,779,725	48.5
Cities & Towns ^d	<u>648,509,000</u>	25.91	.7506	<u>368,898</u>	9.53
Subtotal [C]	<u>\$2,488,606,124ⁱ</u>	99.73	1.265 ^j	<u>\$ 3,148,623</u>	32.25
Subtotal [A, B and C]	\$2,488,606,124	99.73	4.398	\$10,947,347	31.73
D. School Districts ^{e,f}					
State Levy ^g	\$2,495,310,707 ^b	100.0	3.880	\$ 9,681,805	19.83
Local Special Levy ^h	<u>1,400,312,900</u>	56.12	1.3446	<u>1,882,921</u>	7.32
Subtotal [D]	<u>\$2,495,310,707ⁱ</u>	100.0	4.634 ^j	<u>\$11,564,726</u>	27.15
Total [A, B, C, & D]	\$2,495,310,707 ⁱ	100.0	9.02 ^j	\$22,512,073	

Source: Various budgets assembled by the author.

^a (1) Total valuation for the state school levy:	\$ 2,495,310,707
(2) Total valuation for county-wide levies:	\$ 2,488,606,124
(3) Total valuation for unincorporated areas:	\$ 1,842,097,542
(4) Total valuation for incorporated areas:	\$ 648,509,000

^b Difference between valuations for the state school levy and county-wide levy is attributed to senior citizen exemptions.

^c Operating budgets funded by levies against county-wide and unincorporated area valuations are included under paragraph A.

^d Each city and town has one levy which includes fire, roads, and parks. The respective road budgets are developed separate from the current expense budgets. The total regular levy for the cities and towns of Bremerton, Port Orchard, Poulsbo and Winslow totalled \$1,823,288 with an average levy rate of \$2.812.

^e Mason County School District is not included in the School Budget Revenue Summary in Table 9.

^f School district levy data represents the fiscal year January-December 1980. The School Budget Revenue Summary in Table 9 represents the school year September 1979 to August 1980. The school year budgets include revenues from the tax years, or fiscal years, 1979 and 1980, 46 and 54 percent respectively.

^g State levy includes part of Mason County School District.

^h Special levies for 1980 include four (including Mason County School District) of six school districts.

ⁱ Assessed value for calculating the respective average levy rate.

^j Average levy rate.

APPENDIX B

EFFECT OF THE TAX EXEMPTION OF NAVY PROPERTY ON KITSAP COUNTY BONDING CAPACITY, 1980

The valuation of Navy real and personal property in 1980 as estimated in Chapter 5 is \$1,301,353,000.

Major Taxing Districts	Maximum Debt as a Percent of Full Assessed Value Without Voter Approval(1)	Reduction in Bonding Capacity Attributable the Value of Navy Property
Without Voter Approval		
County	.75%	\$ 9,760,148
Road	.375%	4,880,074
Cities	.75%	a
Schools	.375%	<u>4,880,074</u>
Total		\$19,520,296
With Voter Approval		
County	2.5 %	\$32,533,825
Road	1.25 %	16,266,912
Cities	2.5 to 7.5%	a
Schools	2.5 to 3.0%	<u>\$32,533,025 to \$39,040,590</u>
Total Reduction in Bonding Capacity Attributable to the Navy		\$81,334,562 ^b

Source: (1) Washington State Research Council, 1973, p. 591.

^a Assumes all Navy property is located in unincorporated areas of the county.

^b Total reflects the more conservative figure for schools.

ASSESSED VALUATION AND PERCENT DISTRIBUTION OF PERSONAL PROPERTY FOR
WASHINGTON STATE AND KITSAP COUNTY

APPENDIX C

Personal Property Categories	Assessed Valuation		Percent	
	Washington	Kitsap	Washington	Kitsap
A. Farm livestock, products, machinery and equipment	\$ 617,009,000	\$ 1,183,000	5.2	1.0
B. Logging and mining machinery and equipment	1,531,581,000	-	13.1	-
C. All other machinery and equipment	1,831,896,000	49,580,000	15.6	40.0
D. Merchandise held for sale	5,332,059,000	48,360,000	45.5	38.9
E. Supplies and materials not for resale	303,550,000	1,357,000 ^a	63.9	80.0
F. Intra-county public utility property	21,960,000	6,000	2.6	1.1
G. Mobile homes not permanently attached to land	680,472,000	10,525,000	5.8	8.5
H. All other personal property	1,134,442,000	5,709,000	9.7	4.5
I. Watercraft	270,168,000	7,478,000	2.3	6.0
	\$11,723,137,000	\$124,198,000	100.0	100.0

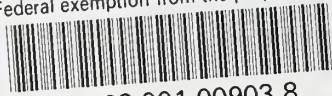
Source: Washington State Department of Revenue, Tax Statistics 1975.

^a The assessed valuation of personal property represented by categories C through F are assumed to be related to industrial and commercial real property. Household personal property is not taxed in the State of Washington. The total assessed valuation of categories C through F is \$99,303,000 or \$.76 per dollar of commercial/industrial improvements assessed valuation (from Table 12).

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